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Robert E. Feldman
Executive Secretary Attention:
Comments, FDIC

RE: Interagency Proposal on the Classification of Commercial Credit Exposures

The proposal seems to clarify what frankly is in the current definitions of the supervisory categories. For example, the definition of Substandard states that the asset is inadequately protected by the current sound worth and paying capacity of the obligor (**Borrower rating**) ***or*** by the collateral pledged (**Facility rating**), if any. In this respect I appreciate the FDIC noting that even though you may have a borrower in default, you may not necessarily suffer a loss on the credit due to collateral coverage and therefore the credit should not be classified. A much easier approach may be to train your examiners that a classified asset should be based upon the likelihood that the Bank might suffer a loss.

On page three of the proposal under the section ***Uniform Agreement on the Classification of Commercial Credit Exposures,*** you note that the framework does not apply to commercial credit exposures in the form of securities. Why would you draw that distinction, a security may be rated below investment grade yet have a remote risk of loss once again due to collateral coverage being sufficient to liquidate the facility in full. This proposal should apply to commercial credit exposures in the form of securities. As an aside, the rating agencies have begun to dual rate securities by rating the risk of default and then providing a rating on the potential for loss.

The examples given under the section defining "Remote Risk of Loss" are too narrow and should be expanded. Real estate, equipment and other hard assets can be liquidated easily into cash; it is a function of what price. For example the Bank has a loan secured by real estate, the borrower defaults, collateral coverage is 3:1 with a current valuation, there is no risk of loss, even if you have a borrower that declares bankruptcy. Why should that loan be classified? In what scenario would be Bank suffer a loss if you truly had a perfected lien?

You may want to consider expanding the treatment of Asset-Based Lending Activities to collateral Based Lending Activities. Once again, if you had real estate or other equipment that you could sell within 90 days, this might not be the highest price you could get due to the quick sale, however if the quick sale price exceeds your basis in the loan, why would that not be considered a "remote risk of loss".

In reviewing the examples provided I disagree with the conclusions drawn in Example 4 and I could see instances where this example could mislead the examiner into a classification when it would not be warranted. You state that the collateral (Central Avenue building) continues to generate sufficient cash flow to service the loan and maintains its fair market value, the institution does not expect to incur any loss on this loan. Your example states that "management assigns a 5 percent loss severity estimate to the facility, which is equal to its impairment estimate for a pool of similar facilities and borrowers". In reality this would not happen, if management truly does not expect to incur a loss and has expertise in this type of facility and therefore can predict with some certainty that the Bank will not incur a loss, this asset would not be classified.

I appreciate the opportunity to provide these comments, if you would like to discuss any of this in more detail I am at your disposal. We view this as a critical component to giving the FDIC a true picture of the risk profile of any given Bank in the system.

Very truly yours,

Molly Curl

M. Molly Curl
Senior Vice President